

FDIC State Profile

Winter 2005

Montana

Montana job growth slowed but average wages increased.

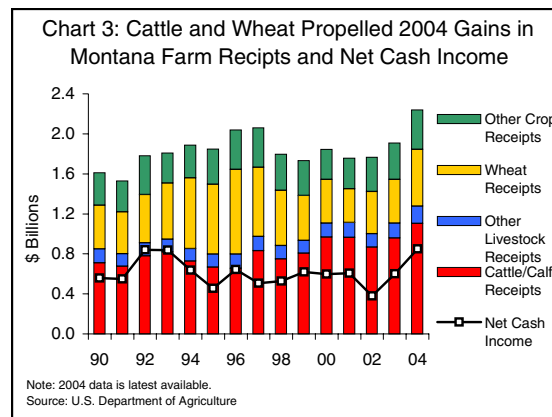
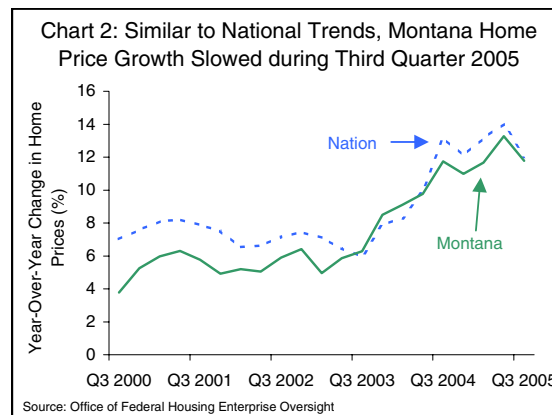
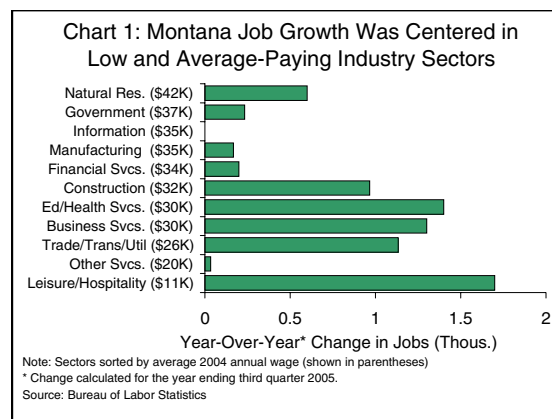
- Although Montana job gains fell to 1.8 percent in third quarter 2005 from 2.9 percent one year ago, wage growth in the state remained solid. Recently released wage data for first quarter 2005 show that Montana wages increased 3.5 percent, above the national wage growth of 2.2 percent, and ranked seventh nationwide.
- Increased hiring in the high-paying natural resources sector, fueled in part by higher energy prices, likely boosted wages in the state overall. However, wage growth was tempered by job gains in the low-paying leisure sector (see Chart 1).
- Forecasts indicate that Montana will continue to nearly match the national rate of job growth in 2006.¹

Montana home price growth remained near the national average.

- Year-over-year home price appreciation fell slightly in the third quarter to 11.8 percent from 13.3 percent the prior quarter and remained slightly lower than the national average (See Chart 2).²
- Appreciation rates in **Billings** declined from the second quarter, reaching 10.4 percent. In **Missoula**, where price gains previously outpaced other Montana metropolitan areas, appreciation rates continued to decelerate from a third quarter 2004 peak of 14.5 percent to 9.6 percent in third quarter 2005.

Montana's agricultural conditions remained solid, and farmland values improved.

- Montana farm cash receipts and net cash income increased significantly during 2004, reflecting gains in cattle and wheat receipts (see Chart 3).
- Cattle prices remained strong through 2005 and the resumption of beef trade with Japan may benefit cattle prices in the near term. Livestock is crucial to the state's



¹Forecast data from Moody's Economy.com.

²Based on data from the Office of Federal Housing Enterprise Oversight.

State Profile

agricultural sector, which derives nearly half of all farm receipts from cattle and calves.

- According to the US Department of Agriculture, Montana farmland values increased 8.5 percent year-over-year in 2005, slightly below a nationwide pace of 11.0 percent. Montana pastureland prices gained 12.3 percent during the period, while cropland appreciated 6.9 percent. Farmland price gains likely reflect low interest rates, improved farm incomes, and greater demand for nonagricultural land uses.

Montana bank office growth ranked 36th nationally.

- Between June 2004 and June 2005, five banking offices were added on net in Montana, comparable to the preceding one-year period, but well below the pace of office openings during the late 1990s when interstate and intrastate banking laws were relaxed.
- During the year ending June 2005, most new offices were opened in the **Bozeman** area (Gallatin County) and the Missoula market (Missoula County). The Bozeman area has significantly fewer people per banking office than other micropolitan areas nationwide, in part a reflection of prior robust branching activity as well as the county's draw as a recreation area. Similarly, Missoula lags other metropolitan markets in terms of residents per office (see Map 1).
- As of June 2005, out-of-state insured institutions held 19 percent of deposits in Montana branches, compared with one percent five years ago. This is a reflection of both new entrants and industry consolidation.

Earnings performance strengthened.

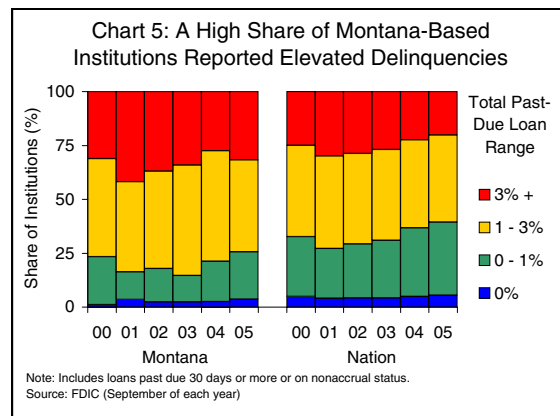
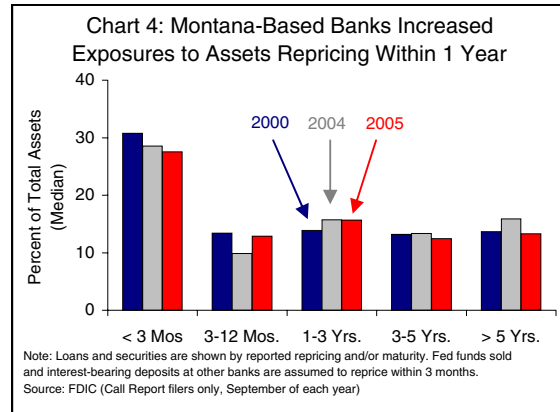
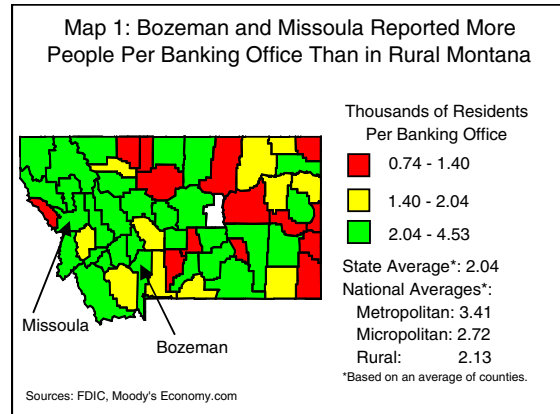
- Third quarter 2005 earnings improved significantly year-over-year, driven primarily by net interest margin expansion and lower overhead burdens. Montana-based banks reported the fourth highest median pre-tax return on assets ratio among the states.
- As short term rates have risen, above-average exposures to slowly-repricing deposits and quickly-repricing assets boosted margins. Roughly half of Montana bank assets are funded with less rate-sensitive checking and savings accounts, including noninterest-bearing demand deposits, versus 43 percent nationwide. At the same time, roughly 28 percent of Montana bank assets reprice on a quarterly basis (see Chart 4), slightly above a nationwide median of 25 percent.

Problem loan ratios declined but remained relatively high.

- Montana ranked third highest among the states for past-due loans in third quarter 2005. Nearly one-third of

institutions reported delinquency ratios above 3 percent, compared to one-fifth nationwide (see Chart 5).

- Rising past-due commercial and residential real estate mortgages, and stubbornly high, albeit declining, delinquent commercial and industrial (C&I) loans contributed to credit problems.
- Contrary to statewide trends, past-due loans increased among institutions based in the agriculturally focused North-Central part of the state.³



³North-Central Montana is comprised of 12 rural counties as well as the Great Falls metropolitan market and the Havre micropolitan area.

Montana at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.5%	2.9%	2.8%	1.2%
Manufacturing (5%)	0.9%	2.1%	2.5%	0.7%	-5.2%
Other (non-manufacturing) Goods-Producing (8%)	4.5%	3.4%	9.5%	9.7%	5.1%
Private Service-Producing (67%)	2.1%	1.7%	3.0%	2.7%	1.3%
Government (21%)	0.3%	-0.1%	0.5%	1.3%	1.2%
Unemployment Rate (% of labor force)	4.5	4.4	4.4	4.4	4.4

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	7.7%	6.2%	6.4%	5.5%
Single-Family Home Permits	63.2%	80.8%	6.3%	4.0%	11.4%
Multifamily Building Permits	-39.2%	-42.2%	126.3%	20.3%	-17.9%
Existing Home Sales	8.2%	13.9%	0.0%	4.3%	2.7%
Home Price Index	11.8%	13.3%	11.7%	10.4%	6.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.32	6.05	4.17	4.68	4.49

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	82	82	80	80	80
Total Assets (in millions)	15,598	15,091	14,374	14,644	13,534
New Institutions (# < 3 years)	4	4	2	2	4
Subchapter S Institutions	25	25	24	24	23

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.08	1.99	2.18	2.21	2.26
ALLL/Total Loans (median %)	1.30	1.32	1.45	1.39	1.46
ALLL/Noncurrent Loans (median multiple)	1.44	1.81	1.48	1.57	1.37
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.02	0.09	0.11

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.79	9.65	9.47	9.15	9.16
Return on Assets (median %)	1.43	1.36	1.35	1.23	1.24
Pretax Return on Assets (median %)	2.13	1.97	1.95	1.80	1.69
Net Interest Margin (median %)	4.95	4.78	4.77	4.63	4.57
Yield on Earning Assets (median %)	6.75	6.34	6.20	6.05	6.19
Cost of Funding Earning Assets (median %)	1.75	1.56	1.27	1.27	1.54
Provisions to Avg. Assets (median %)	0.10	0.11	0.09	0.13	0.18
Noninterest Income to Avg. Assets (median %)	0.61	0.60	0.69	0.69	0.74
Overhead to Avg. Assets (median %)	2.88	3.03	2.94	2.91	2.98

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	70.1	70.3	68.3	65.7	61.3
Noncore Funding to Assets (median %)	17.8	17.7	15.8	14.4	14.0
Long-term Assets to Assets (median %, call filers)	14.0	14.3	16.5	14.5	16.1
Brokered Deposits (number of institutions)	28	23	15	15	10
Brokered Deposits to Assets (median % for those above)	4.6	3.8	6.6	3.8	5.6

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	107.6	107.5	115.0	116.6	112.6
Commercial Real Estate	174.9	166.0	170.1	169.6	146.2
<i>Construction & Development</i>	35.0	34.2	26.6	28.1	18.7
<i>Multifamily Residential Real Estate</i>	1.5	1.2	1.2	1.4	1.2
<i>Nonresidential Real Estate</i>	118.8	105.4	128.9	128.3	121.5
Residential Real Estate	109.9	108.2	111.5	112.3	91.9
Consumer	49.8	50.6	56.2	52.6	55.3
Agriculture	105.9	101.1	109.0	91.7	96.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Billings, MT	12	1,966	< \$250 million	67 (81.7%)
Missoula, MT	13	1,278	\$250 million to \$1 billion	13 (15.9%)
Great Falls, MT	10	931	\$1 billion to \$10 billion	2 (2.4%)
			> \$10 billion	0 (0%)